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FISCAL IMPACT STATEMENT

LS 7421

BILL NUMBER: SB 410

NOTE PREPARED: Jan 29, 2007

BILL AMENDED: Jan 29, 2007

SUBJECT: Conservation and Load Management Programs.

FIRST AUTHOR: Sen. Hershman

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides financial incentives for an electric utility's: (1) investments in advanced metering infrastructure (AMI); and (2) implementation of conservation and load management programs. This bill also requires the Utility Regulatory Commission (IURC) to: (1) create specified financial incentives for investments in AMI and conservation and load management programs; and (2) review applications by electric utilities for the incentives created.

Effective Date: July 1, 2007.

Explanation of State Expenditures: *IURC:* This bill will cause an indeterminable increase in administrative costs of the IURC. The bill requires the IURC to hold hearings and make determinations related to applications filed by electric utilities for IURC approval to recover certain costs. The bill allows an electric utility to file for cost recovery when the electric utility invests in advanced metering infrastructure (AMI) or implement conservation and load management programs. It is estimated that the IURC could implement the provisions of this bill through the use of the existing level of staff and resources.

Rate Adjustments: There could be an increase in utility purchase costs for all state and local units of government. This impact is indeterminable, and will only be realized to the extent that an electric utility is approved for cost recovery under the bill, and in turn increases the utility's rates. It is estimated that this impact could be offset by two factors:

- (1) The possible increase in collections from the Utility Receipts Tax (URT) and Utility Services Use Tax (USUT) if gross receipts and gross consideration are increased as a result of rate increases.
- (2) The possible decrease in electricity consumption by state and local units based on the effectiveness of a conservation and load management program implemented by an electric utility.

It must be noted that the bill also provides that a utility may recover costs relating to "lost revenue" from the implementation of a conservation and load management program. This means that any offset of expenditures based on conservation could be cancelled out by approval of a rate adjustment for a utility to recover "lost revenue". "Lost revenue" is calculated under the bill by determining the revenues lost as a result of the conservation and load management program and subtracting the value of any reduced operating or maintenance costs resulting from the program, including fuel cost savings.

Background on IURC Funding: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.15% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2006, fees from the utilities and fines generated approximately \$11.8 M.

Explanation of State Revenues: *Rate Adjustments:* This bill could increase collections of the URT and USUT. The amount of any increase is indeterminable and will only be realized to the extent that an electric utility is approved for cost recovery under the bill, and in turn increases the utility's rates.

This impact could be offset by a possible decrease in electricity consumption by consumers based on the effectiveness of a conservation and load management program implemented by an electric utility. The offset will be determined based on the amount of utility receipts gained by the increased rates in relation to the utility receipts lost by a decrease in consumption.

It must be noted that the bill provides that a utility may also recover "lost revenue" from the implementation of a conservation and load management program. This means that any offset of expenditures based on conservation could be cancelled out by approval of a rate adjustment for a utility to recover "lost revenue". "Lost revenue" is calculated under the bill by determining the revenues lost as a result of the conservation and load management program and subtracting the value of any reduced operating or maintenance costs resulting from the program, including fuel cost savings.

Background: The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana.

Explanation of Local Expenditures: *Rate Adjustments:* There could be an increase in utility purchase costs for all state and local units of government. This impact is indeterminable and will only be realized to the extent that an electric utility is approved for cost recovery under the bill, and in turn increases the utility's rates. (Please see *Explanation of State Expenditures* for a more detailed discussion of this impact).

Explanation of Local Revenues:

State Agencies Affected: All; Utility Regulator Commission.

Local Agencies Affected: All.

Information Sources:

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